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New Zealand

Fresh Deciduous Fruit

Annual

2003

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Report Highlights: Severe September/October frosts in the Hawkes Bay region along with a major hail storm in November in the Nelson region will significantly reduce New Zealand's apple production in 2003. Apple exports in the 2002/2003 season are forecast to decline 11 percent to 288,000 tons. Local supplies of processing grade apples will increase markedly and imports of apple juice concentrate will fall sharply to a more normal level.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Wellington [NZ1], NZ

SECTION I. SITUATION AND OUTLOOK

Severe frosts in the Hawkes Bay region and a hail storm in the Nelson region the two largest apple and pear growing regions in New Zealand will significantly affect both the volume and the quality of New Zealand's upcoming apple harvest. Early indications point to a 4 percent reduction in apple production and a 11 percent decline in exports in 2002/2003 to 288,000 tons. The pear crop will be down only slightly in 2003 since the impact of the adverse weather conditions was less severe for pear development due to their extended flowering period.

A year ago, favorable weather conditions throughout the 2001/2002 growing season resulted in a 16 percent increase in New Zealand's apple crop and a 25 percent increase in 2001/2002 apple exports. Apple exports during the 2001/2002 season reached 18 million TCEs (Tray Carton Equivalents = 18 kg.) or 325,000 tons. Processed apple volumes fell 9 percent to 85,000 tons in 2001/2002 compared to the 2000/2001 season. Lower processed apple volumes reflected the larger apple export packout of approximately 80 percent. Apple juice processors increased their imports of apple juice concentrate. National pear production was down slightly to 23,800 tons. Pear exports, however, increased 15 percent to 10,500 tons due to the overall high quality of the crop.

Increased apple export volumes combined with favorable export market conditions and a competitive New Zealand dollar formed the basis for a profitable season last year for New Zealand's apple growers. The variety-weighted export return, as indicated by New Zealand's leading apple exporter ENZA, was NZ $ 21 (U.S. $10.5) per TCE, up 6 percent over the previous season's return.

ENZA remained the largest exporter of New Zealand apples in 2002, handling 45 percent of the national export apple crop. A revised industry estimate indicates that 86 exporters were active in the first year of a deregulated New Zealand export environment. However, 80 percent of the apple export crop was handled by only 8 to 10 firms. Industry insiders predict that this number will decline significantly next season in response to intense competition among the largest exporters for a reduced export quality apple crop in 2003.

New Zealand's apple and pear breeding program, which is under the auspices of the government and managed by HortResearch, is facing long-term cuts to its research budget after the Government decided in mid-2002 to reduce funding by NZ $ 1 million (U.S. $500,000). New Zealand's highly acclaimed breeding program faces the prospect of either marketing its research offshore or significantly reducing its research activity to match a reduced budget level. In order to maintain HortResearch's breeding program which is widely recognized to provide substantial benefits to New Zealand growers, the initiation of an industry-wide grower contribution appears likely.

SECTION II. STATISTICAL TABLES

PS&D TABLE - FRESH APPLES

PSD Table						
Country	New Zealand					
Commodity	Fresh Apples				(HA)(1000 TREES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	13500	13500	13000	13000	0	13000
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	376000	384000	429000	446500	0	431000
Non-Comm. Production	29000	29000	33000	33500	0	31000
TOTAL Production	405000	413000	462000	480000	0	462000
TOTAL Imports	23	23	80	70	0	70
TOTAL SUPPLY	405023	413023	462080	480070	0	462070
Domestic Fresh Consump	60000	60000	54000	70070	0	72070
Exports, Fresh Only	252000	260000	288000	325000	0	288000
For Processing	93023	93023	120080	85000	0	102000
Withdrawal From Market	0	0	0	0	0	0
TOTAL UTILIZATION	405023	413023	462080	480070	0	462070

PS&D TABLE - CONCENTRATED APPLE JUICE

PSD Table						
Country	New Zealand					
Commodity	Concentrated Apple Juice				(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Deliv. To Processors	93023	93023	120080	85000	0	102000
Beginning Stocks	0	0	0	0	0	0
Production	16000	16000	15600	14450	0	17300
Imports	400	400	400	1700	0	200
TOTAL SUPPLY	16400	16400	16000	16150	0	17500
Exports	9300	9300	11500	9050	0	10000
Domestic Consumption	7100	7100	4500	7100	0	7500
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	16400	16400	16000	16150	0	17500

PS&D TABLE - FRESH PEARS

PSD Table						
Country	New Zealand					
Commodity	Fresh Pears				(HA)(1000 TREES)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Area Planted	995	995	995	995	0	995
Area Harvested	0	0	0	0	0	0
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Commercial Production	18856	20800	19400	19400	0	19200
Non-Comm. Production	4400	3500	4400	4400	0	4200
TOTAL Production	23256	24300	23800	23800	0	23400
TOTAL Imports	1400	1500	1400	1300	0	1300
TOTAL SUPPLY	24656	25800	25200	25100	0	24700
Domestic Fresh Consump	15606	12000	15150	11200	0	11200
Exports, Fresh Only	4500	9100	5500	10500	0	10000
For Processing	4550	4700	4550	3400	0	3500
Withdrawal From Market	0	0	0	0	0	0
TOTAL UTILIZATION	24656	25800	25200	25100	0	24700

TRADE MATRIX

NEW ZEALAND APPLE EXPORTS				
(Calendar Years, MT)				
Destination	1999	2000	2001	2002*YTD
Other EU	129,954	115,267	78,224	94,098
United Kingdom	89,936	92,343	76,499	80,916
United States	71,026	78,152	55,782	64,427
Netherlands	6,821	2,539	4,310	21,678
Taiwan	9,069	9,419	6,594	15,481
Germany	3,756	4,055	18,354	15,389
Malaysia	5,513	9,368	7,908	12,355
Singapore	11,731	10,008	7,109	10,047
Hong Kong	13,690	21,246	14,374	8,583
Indonesia	978	5,106	3,575	3,984
Thailand	1,935	2,674	2,908	2,348
Other	17,735	23,657	19,785	24,520
TOTAL	362,142	373,832	295,422	353,826
* YTD (Jan - Sep)				
Source: Statistics New Zealand				

TRADE MATRIX

NEW ZEALAND PEAR EXPORTS				
(Calendar Years, MT)				
Destination	1999	2000	2001	2002*YTD
United States	2,829	6,991	2,204	5,056
United Kingdom	2,188	3,053	1,260	2,549
Destination Unknown EU	1,706	1,709	358	1,486
Netherlands	75	76	29	1,016
Other	124	12	13	548
TOTAL	7,063	11,881	3,952	10,655
* YTD (Jan - Sep)				
Source: Statistics New Zealand				

SECTION III. SUPPLY AND DEMAND, POLICY

PRODUCTION

Approximately 90 percent of New Zealand's apple production originates in the Hawkes Bay (50 percent) and the Nelson (40 percent) regions. Severe frosts in September and again in October in the Hawkes Bay region, in areas that are usually frost-free, along with a major hail storm (November 17) in the Nelson region are expected to significantly reduce apple production and the quality of the upcoming harvest in 2003. The impact of these events is less pronounced on the New Zealand pear crop since flowering of New Zealand pear varieties occurs over a longer period of time. Lower than usual average spring temperatures will also affect fruit quantity and quality in major New Zealand apple and pear growing regions.

The frosts in the Hawkes Bay area occurred during a concentrated period of flowering and their impact was intensified by the use of bud-break enhancers by some orchardists (to concentrate or bring forward flowering). Worst affected were Braeburn, Royal Gala, and Pacific Beauty varieties. Some industry sources estimate that the Braeburn export crop accounting for more than one third of the Hawkes Bay's apple harvest, may be reduced by as much as 30 to 50 percent. The Royal Gala crop, accounting for an additional one third of the Hawkes Bay apple crop, may experience only a 15 percent reduction since only orchards which flowered early were affected by the frosts.

Frost impact in the Hawkes Bay region was highly variable and did not affect all orchards equally. Some orchards were not affected at all. Other orchards saw only buds on the lower branches of their trees damaged, while some orchards saw buds over the entire tree affected. Frost impact on quantity and size will vary widely among these orchards. While a commercial apple crop is produced from no more than 10 percent of the total flower bloom, harvest impact of the cold weather depends on where on the trees flowers were at the time the cold weather was experienced. Trees which endured frost at ground level will tend to produce fruit on one year old branchwood while higher branch levels are likely to carry more small-sized fruit. On trees that had their buds affected at all tree heights, thinning practices may help to grow larger sized fruit which somewhat compensates growers for an otherwise significant volume reduction.

Final fruit quality also will be affected by the low average temperatures which were prevalent throughout spring which is the critical cell division period. Low spring temperatures reduced cell division which means that fruit growth during the final stage of fruit development will tend to based on a smaller number of cells. Since the cell division stage was compromised by low spring temperatures, fruit size increases will be associated with larger cells and thus softer tissue. This will in turn affect storability, eating quality and marketability of fruit. Consequently, those growers electing to respond to frost damage by letting fruit grow larger will subject their fruit to greater quality risks. Larger-sized fruit can also contain low levels of calcium which will impair fruit storability. Final calcium levels will not be known until 7 to 10 days before harvest. The principal crop affected will be the Braeburn variety which usually encounters increased marketing difficulty as the size profile increases. European export markets generally prefer smaller fruit, while Asian markets which call for larger-sized fruit generally prefer the sweeter Royal Gala variety.

A November 17, hail storm in the Nelson region reduced crop output in this zone and will result in a higher incidence of damaged and misshapen fruit. Industry estimates indicate a 18,000 ton reduction in apple export volumes from the Nelson region.

In sum, a slight reduction in the size of New Zealand's apple crop in 2002/2003 is forecast. A larger fruit size profile is anticipated, and a pronounced reduction in exportable volumes. Based on current information, post forecasts a reduction in New Zealand's total apple harvest in 2002/2003 to 462,000 tons and a 37,000 ton drop in export volume to 288,000 tons. Given the expectation of a tight world apple supply situation, some exporters may adjust quality standards to meet a relatively strong overseas demand for New Zealand apples next season.

Pear production will be affected to a lesser degree as flowering was spread over a longer period of time. Post is forecasting only slight reductions in pear production and export volumes in 2002/2003. In the Hawkes Bay area, Taylors Gold and William Bon Chretian were reported as showing good return bloom levels. But overall, the pear crop appears lighter than last year. This was aided by a regime of heavy pruning to restrict flower levels on laterals and good early fruit thinning. The total New Zealand pear crop is forecast to decrease to 23,400 tons in the 2002/2003 season. Exports are forecast to decline to 10,000 tons.

INDUSTRY PERFORMANCE SINCE EXPORT DEREGULATION

The industry experienced some coordination problems concerning phytoysanitary certification last year. This resulted from the additional resource demands placed on the Ministry of Agriculture and Fisheries' and USDA's pre-clearance system by the many new small exporters seeking to have their export consignments certified. Overall, the first year of deregulated export marketing appears to have been successful according to most industry participants.

Export market performance was aided last year by tight apple supplies in some key markets such as the United States due in part to Chile's "off" year. Apple export sales also were aided by a significantly larger export packout and the relatively low value of the New Zealand dollar versus other key currencies.

In general, deregulation has made it easier for exporters to pursue geographic niche market opportunities. Smaller exporters are filling demand from new export sales outlets which may be less profitable for some of the larger exporters. Multiple export channels have enhanced flexibility and reduced the need for market focus on the United Kingdom. This has supported an increased flow of product into Asian markets. For example, exports to Taiwan more than doubled in 2002 while shipments to Malaysia rose 50 percent. New exporters took full advantage of a range of sales opportunities by packing to specific color specifications, quality and pack type. Whether a proliferation of pack sizes, to include 12, 15, and 20 kg. cartons, is fully justified on the basis of increasing grower returns is not certain. Some industry analysts suggest that additional packaging costs associated with new pack design and shorter production runs may outweigh the higher prices achieved for this fruit in export markets.

Most of the 2002 apple export crop achieved improved average prices. The variety-weighted grower return achieved in 2002 per TCE was NZ $21, 6 percent above 2001. However, returns to growers differed markedly among exporters. Aggressive pricing strategies adopted by some New Zealand exporters in certain export markets reportedly depressed grower returns. A number of apple varieties delivered strong results with some count sizes of Braeburn reaching over NZ $20 (U.S. $10) per carton, Royal Gala over NZ $30 (U.S. $15), and Fuji over NZ $35 (U.S. $17.5). ENZA's new variety, JAZZ, recorded a strong average value of NZ $49 (U.S. $24.5) per carton. ENZA is eager to maintain its high returns for this variety and consequently controls new plantings and the marketing channels for this variety. JAZZ has 10 days more shelf life than Braeburn but has very similar eating qualities.

According to industry sources, the North American pear market responded well to the Taylors Gold variety this past year for 90 count (18 kg. carton) and larger. But smaller sizes sent elsewhere reportedly did not cover handling and shipping costs. Larger sized Doyenne du Comice and larger sized Packhams Triumph performed well in most export markets. The 2002 season was characterized by a large pear crop with generally smaller fruit sizes which encountered sales difficulties for some varieties, including Taylors Gold. Overall, pear returns were lower than in 2001. Growers responded by trying to grow fruit 75 mm and larger for the 2003 harvest. This year, many pear blocks appear quite light, according to industry reports.

All major UK retail chains are requiring New Zealand's apples and pears to come from EUREPGAP-accredited suppliers which requires New Zealand orchardists to achieve prescribed 'good' orchard practices. ENZA is trying to guarantee customers a supply of fruit from orchards that are accredited. As an incentive to its growers, ENZA is offering a NZ$ 0.20 (U.S. 10 cents) premium for every 18 kg. carton of fruit from accredited orchardists. While ENZA is intent on having all suppliers accredited to the system, it appears that only a small number of growers will be fully certified before the start of the 2003 harvest.

TRADE

Exporters Compete for Reduced 2003 Apple Harvest

The anticipated reduction of the exportable apple crop in 2003 is causing increased competition for fruit among exporters. This is a continuation of last year's experience when new exporters bid aggressively for fruit from growers. Last season, Millennium Foods Group New Zealand entered the apple export market offering an advance payment of NZ $5 (U.S. $2.15) per 18 kg. carton. Approximately 30 apple growers were offered advance payments on the basis of their estimated number of Tray Carton Equivalents (18 kg. cartons) that they would be able to supply in the 2001/2002 season. Millennium reportedly paid out NZ $2.5 million (U.S. $1.08 million) in grower advances in November 2001, three months before the first fruit was picked. However, some growers were able to deliver no more than half the promised volumes. Some of these growers have now received bills, rather than checks, to pay back their advances.

Millennium charged 15 percent interest on all advances to growers. Due to grower concerns over Millennium's high interest rate, Millennium has lowered its interest rate on advances given to growers for the upcoming crop. Apple exporter ENZA, which handled approximately 45 percent of New Zealand's export shipments in the 2002 season, is trying to secure close to 10 million cartons of export fruit for the upcoming season and is also offering advance payments to growers. ENZA's first grower payment (NZ $3/carton; U.S. $1.5/carton) was made in November/December 2002 and will be followed by an additional advance in January 2003 of NZ $1 per carton. ENZA is reported to charge 9.75 percent interest (per annum) on its grower advances. ENZA also made final season payments for 2002 fruit much earlier than under the prior regulated industry structure. This enhanced grower cashflow and the likelihood that ENZA will meet its buying target for the 2003 crop.

Latest industry estimates indicate that 86 exporters operated in the 2002 apple exporting season. Many of the smaller players are unlikely to participate in the 2003 season. Growers will tend to supply only those exporters that achieved the highest average returns in the 2002 season. With competition for fruit among exporters expected to be intense this year, larger exporters are expected to outbid smaller firms in an attempt to achieve economic shipping volumes.

Juice Processing

Frost and hail damage in the Hawkes Bay and Nelson regions will result in a significant increase in the availability of low quality apples suitable only for juice production in the 2002/2003 season. Crop management over the next several weeks will be crucial in determining the quantity of low quality apples entering the market. New Zealand juice manufacturers doubled their imports of apple juice concentrate during 2002. This resulted from the generally high quality of last season's crop and a reduced availability of processing quality apples. A growing volume of inexpensive Chinese apple juice concentrate and falling global cider prices have depressed juicing apple prices in New Zealand. The Chinese crop is expected to increase to 25 million tons by 2005, accounting for almost 60 percent of total world output. This is likely to encourage local growers to adopt crop management practices which stress export grade fruit. Nevertheless, post anticipates that local supplies of processing apples will increase significantly in 2003 and will replace imported apple juice concentrate. ENZA, one of New Zealand's three major fruit juice processors, is currently finalizing the price it will offer pipfruit growers for hail damaged apples and pears from the upcoming harvest.

POLICY

New Zealand's Apple & Pear Breeding Program

The future of New Zealand's apple & pear breeding program which had been developed and financed over many years through a combination of grower and public funds is uncertain. HortResearch has operated the program which is highly acclaimed for the development of several apple varieties, most notably the Braeburn apple. In the past 12 years, the breeding program also developed the commercially successful Pacific Rose, Pacific Beauty, Pacific Queen, and Jazz varieties. The program's

long-term future has been put into uncertainty following de-regulation of the industry. In June 2002, the Government reduced its funding for the program by NZ $1 million (U.S. $500,000) and is now calling on the industry to carry the burden for a larger proportion of HortResearch's operational costs.

Grower funding for the program has not yet been forthcoming which in part reflects several years of relatively low fruit prices and grower incomes. In the absence of industry-wide grower contributions, only ENZA has the financial capacity to offer significant research funding. ENZA already contributes to HortResearch's program, but it limits its funding exclusively to the final stages of variety commercialization.

With reduced funding, HortResearch now finds itself in a dilemma. HortResearch is a government-owned Crown Research Institute which by law is required to be a commercially viable company that competes for public and private research contracts. At the same time, HortResearch also is expected to meet its social responsibility by undertaking only research that is beneficial to New Zealand.

In view of HortResearch's funding situation, it is likely that New Zealand apple & pear growers at some stage in the near future will be asked to fund HortResearch activity through a grower levy. HortResearch reportedly is holding confidential discussions with New Zealand Pipfruit Ltd. While no official indication has been made, it appears that the preferred industry option is to retain HortResearch's existing research capability and to continue the breeding program. A grower referendum on the levy question may soon be initiated.

If the grower levy is not imposed, HortResearch is likely to face the prospect of either marketing its research results outside of New Zealand or reducing its research capacity to meet lower funding levels. Seeking funding through private New Zealand research contracts is another option that HortResearch may pursue in an attempt to maintain its current level of operations. Similar to ENZA's management of the JAZZ variety, these would likely be exclusive research contracts, benefitting only those companies which control the release and marketing of any newly developed varieties.